

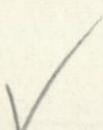
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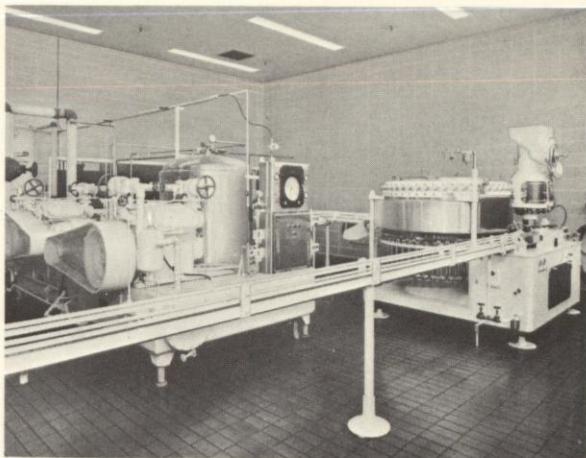


*Annual Report
To Stockholders*

1954

PEPSI-COLA COMPANY





Bottling Room

Milwaukee, Wisconsin

This modern new Pepsi-Cola bottling plant at 2820 West Capitol Drive triples the productive capacity of our former plant in the important Milwaukee market area. The plant has more than 44,000 square feet under roof, with enclosed garage, and is located on a site of more than 74,000 square feet.

Designed for us by Skidmore, Owings & Merrill, architects, the plant was constructed by Selzer, Ornst Co.

The Board of Directors of your Company, Officials of the City of Milwaukee and State of Wisconsin, hundreds of leading citizens and representatives from more than 70 independent Pepsi-Cola Bottlers of the Midwest region attended the formal opening of the plant on June 17, 1954.

Syrup Room



Annual Report 1954

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PEPSI-COLA COMPANY

3 West 57th Street, New York City

BOARD OF DIRECTORS

JAMES W. CARKNER, <i>Chairman</i>	HARRY E. GOULD
HERBERT L. BARNET	MORTIMER HAYS
JAMES G. BLAINE	CHRISTOPHER E. HOLZWORTH
SHELDON R. COONS	ADMIRAL EDWARD O. McDONNELL
JAMES FELT	DR. LOUIS A. REZZONICO
WILLIAM B. FORSYTHE	ALFRED N. STEELE

OFFICERS

President

ALFRED N. STEELE

First Vice-President

WILLIAM B. FORSYTHE

Executive Vice-President

HERBERT L. BARNET

Vice-Presidents

RICHARD H. BURGESS
Domestic Sales

DONALD M. KENDALL
*National Accounts and
Fountain Sales Department*

D. MITCHELL COX
Sales Promotion

MILWARD W. MARTIN
Secretary, Law Department

THOMAS ELMEZZI
Manufacturing

HENRY E. McGOVERN
Equipment Department

STEPHEN L. GALVIN
Director of Research

CLIFFORD A. RIDDLE
Bottle Sales Division

STEPHEN J. GULLO
Product Control Department

A. ALLEN THOMSON
Sugar Division

LOUIS E. NUFER, *Treasurer*

WILLIAM B. FORSYTHE, *Chairman of the Board of Directors
and President of Pepsi-Cola International, Ltd.*

EMMETT R. O'CONNELL, *President of Metropolitan Bottling Company, Inc.*

FRANK W. MCINTOSH, *President of Pepsi-Cola Company of Canada, Limited*

TRANSFER AGENTS

THE MARINE MIDLAND TRUST COMPANY OF NEW YORK

THE FIRST NATIONAL BANK OF JERSEY CITY

HARRIS TRUST AND SAVINGS BANK (CHICAGO, ILLINOIS)

REGISTRARS

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK

THE FIRST NATIONAL BANK OF CHICAGO (CHICAGO, ILLINOIS)

FIVE-YEAR COMPARISON

FINANCIAL RESULTS	1954	1953	1952	1951	1950
Gross Profit on Sales . . .	\$51,787,727	\$45,419,752	\$35,022,415	\$30,216,383	\$23,765,879
Income Before Deducting					
United States and					
Foreign Income Taxes . .	12,703,690	11,384,412	7,834,126	4,192,890	2,544,610
Net Income	6,212,690	5,476,882	3,880,362	2,632,181	1,271,919
Earnings Per Share	1.06 $\frac{1}{8}$.95 $\frac{1}{3}$.67 $\frac{1}{2}$.45 $\frac{3}{4}$.22
Dividends	3,769,493	2,871,752	2,010,227	—	—
Dividends Per Share65	.50	.35	—	—
No. of Shares Outstanding .	5,813,155	5,743,505	5,743,505	5,736,005	5,736,005

FINANCIAL POSITION	1954	1953	1952	1951	1950
Current Assets	\$29,309,566	\$29,850,407	\$23,459,670	\$18,538,797	\$17,248,807
Current Liabilities	11,227,522	11,854,418	7,048,898	4,830,536	3,784,171
Working Capital	\$18,082,044	\$17,995,989	\$16,410,772	\$13,708,261	\$13,464,636
Fixed Assets—Net	17,172,325	14,758,730	13,980,506	15,044,434	10,939,904
Other Assets	4,305,246	3,963,617	3,720,446	3,374,015	3,171,161
Total	\$39,559,615	\$36,718,336	\$34,111,724	\$32,126,710	\$27,575,701
Long Term Debt (Including Note Payable to Insurance Company) and Customers' Deposits	4,939,642	5,111,280	5,109,798	5,309,341	5,221,898
Stockholders' Equity .	\$34,619,973	\$31,607,056	\$29,001,926	\$26,817,369	\$22,353,803

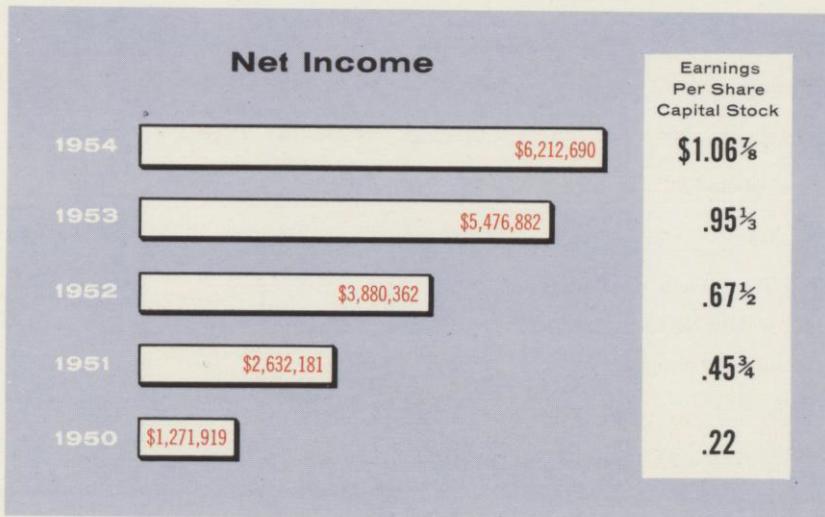
To the Stockholders, Bottlers and Employees of Pepsi-Cola Company: On behalf of the Board of Directors, I submit this Annual Report of the Company's operations for the year ended December 31, 1954.

Financial Review

Sales for the calendar year 1954 surpassed the record high set in the previous year, and are running in the first quarter of 1955 at an accelerating rate. In the five-year period from January 1, 1950 to December 31, 1954, your Company has shown a continuous increase in sales and earnings, as illustrated in the year-by-year financial comparison on the preceding page.

EARNINGS

Earnings *before* taxes were \$12,703,690 in 1954 compared with \$11,384,412 in 1953. This represents an increase of 11½ per cent over 1953. Federal and foreign income taxes on 1954 earnings were



\$6,491,000 compared with \$5,907,530 in 1953.

Earnings *after* taxes in 1954 were \$6,212,690 compared with \$5,476,882 in 1953. These 1954 earnings represent an increase of 13½ per cent over 1953.

Earnings per share on the 5,813,155 shares of capital stock outstanding at the end of 1954 were \$1.06⅞ in 1954 compared with 95⅓ cents on 5,743,505 shares outstanding at the end of 1953.

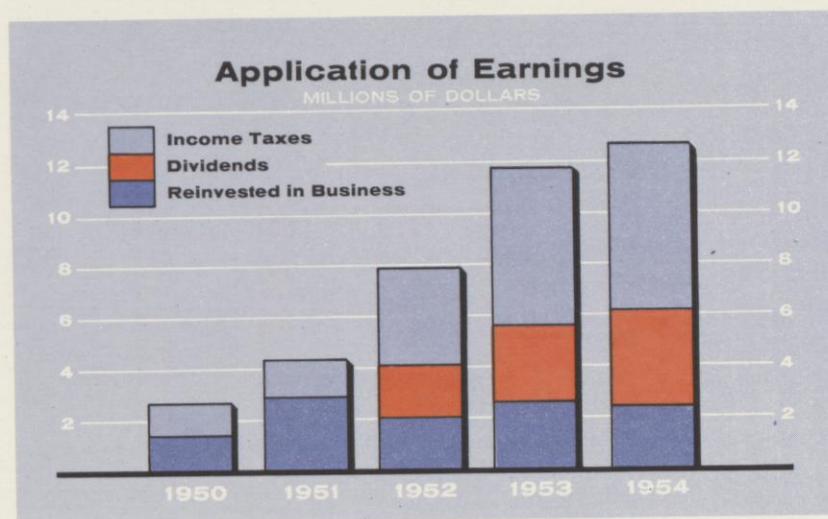
Devaluation by the Mexican Government of their currency in April, 1954 and deferment of a part of foreign income following the establishment of our international subsidiary which commenced operations in April, 1954 adversely affected our earnings in the year under review.

DIVIDENDS

In November, 1954, the Board of Directors announced that it expected to establish quarterly dividend payments in 1955.

In February of this year the Board of Directors declared a quarterly dividend of 20 cents a share, payable March 31, 1955 to Stockholders of record as of March 16, 1955.

In 1952, after a two-year pause, dividend payments were resumed, as indicated in the table shown on the following page:



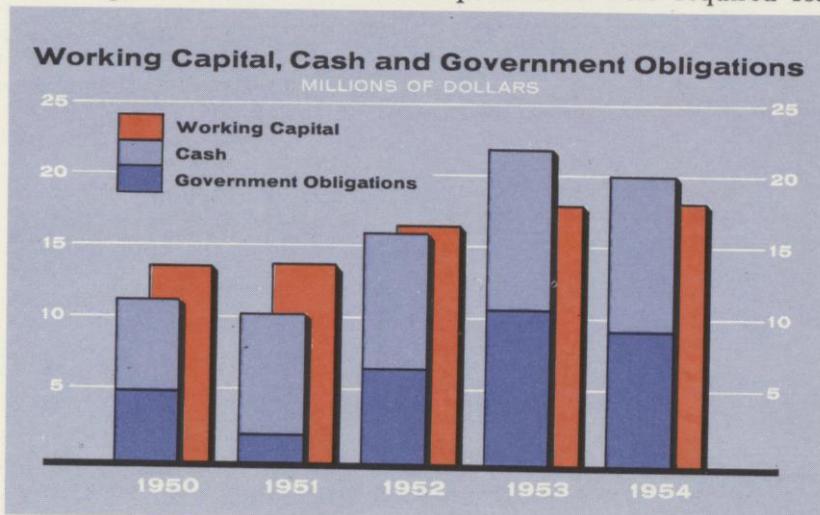
DECLARED	AMOUNT	EXTRA	PAID
Oct. 16, 1952	25¢	10¢	Nov. 14, 1952
TOTAL 1952: 35¢			
June 25, 1953	25¢	—	July 24, 1953
Nov. 23, 1953	25¢	—	Jan. 2, 1954
TOTAL 1953: 50¢			
June 17, 1954	25¢	—	Aug. 2, 1954
Nov. 23, 1954	25¢	15¢	Dec. 31, 1954
TOTAL 1954: 65¢			
TOTAL FOR PERIOD: \$1.50			

These dividend payments from 1952 through 1954 totaled \$8,651,472 or \$1.50 a share.

WORKING CAPITAL

Working capital has increased to \$18,082,044 as at the 1954 year-end from \$17,995,989 at the end of the preceding year, and is at the highest point in the Company's history. Cash and government securities, amounted to \$20,141,348 at December 31, 1954, as compared with \$21,923,242 at December 31, 1953.

During 1954 substantial cash expenditures were required for



plant construction, increase of bottling facilities, and acquisition of glass, cases, automotive equipment, coolers, vending machines and other tools of the trade. Expenditures for these purposes amounted to \$9,115,000 in 1954, making a total of \$31,932,000 during the last five calendar years.

Our Note Payable to an insurance company was further reduced and at year end amounted to \$2,998,000.

Stockholders' equity has risen to a new high of \$34,619,973 in 1954 compared with \$31,607,056 in 1953.

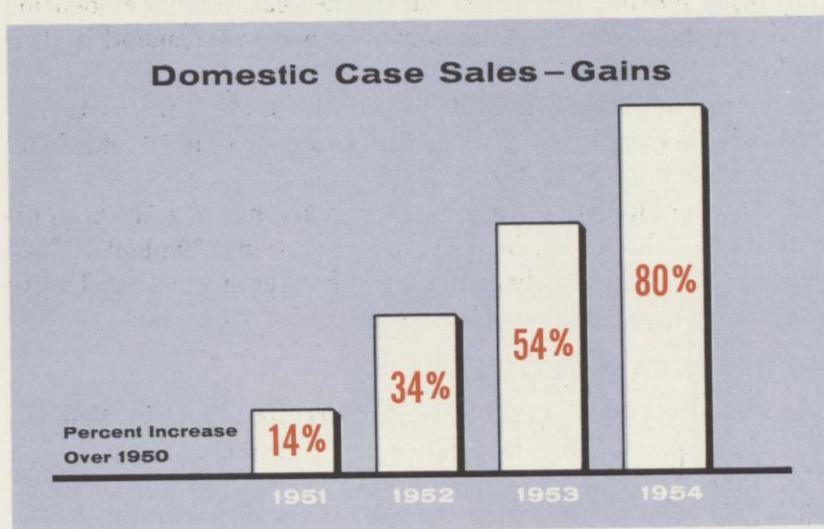
Earned surplus has increased by \$12,968,369 or 95 per cent since January 1, 1950, and at the end of 1954 totaled \$26,608,283.

SALES

The upward trend of our Company's sales continues unabated. Reported annual case sales in the United States attained the highest level in the Company's history in 1954, representing an increase of 80 per cent since 1950.

For 54 consecutive months—through February, 1955—case sales of Pepsi-Cola have increased each month over the corresponding month of the preceding year.

According to trade estimates, where available, the Company's domestic annual rate of sales growth continues markedly to exceed that of the soft drink industry as a whole.



Development Within the United States

Pepsi-Cola Company, the second largest manufacturer of soft drinks in the world, is also the fastest growing. Increasing public demand for Pepsi-Cola is reflected by the fact that more new bottling plants have been opened by Pepsi-Cola Bottlers in the last three years than by bottlers of any other beverage.

In 1954, more cases of Pepsi-Cola were sold in the United States than ever before in the Company's history. This all-time high in sales represents a 16 per cent increase over the previous sales record established in 1953.

All of our eight sales regions shared in this upward surge. In 239 bottling operations, spread throughout the country, new per capita highs were reached.

At the end of 1954, 42 domestic Bottlers of Pepsi-Cola were selling from one million to more than 10 million cases of Pepsi-Cola a year. We anticipate that the number will increase to well over 50 by the end of 1955. In 1950 there were only 15 Pepsi-Cola Bottlers whose sales exceeded one million cases per year.

Twenty new Pepsi-Cola bottling plants were opened in the United States in 1954. Major additions or alterations were made in 23 bottling operations, and bottling lines were replaced or rehabilitated in 37 other bottling operations during the year, further evidencing Bottler confidence in the Company and consumer demand in their markets.

Fourteen new Pepsi-Cola plants, already under construction in 1954, will be completed in 1955. It is expected that 20 additional new plants will be built during 1955.

Bottling equipment with greater capacity has already been ordered for installation during 1955 in an additional 30 plants. These new bottling lines, already ordered, will further increase productive capacity by many millions of cases of Pepsi-Cola a year.

NEW ORLEANS CONVENTION

In February, 1954, Pepsi-Cola Bottlers assembled in New Orleans, Louisiana for their first national convention since 1951. More than 1400 representatives of Bottlers and the Parent Company attended.

Our Bottlers from such widely separated places as Alaska, the Philippines and our neighboring nations to the North and South attended the four-day gathering. The convention gave Bottlers an opportunity to meet with Company officials at every level, to exchange technical information, and to place important orders for modern tools of the bottling trade exhibited by numerous suppliers.

The Company's service departments gave Bottlers demonstrations of new sales training methods, sales promotion, route management, advertising, manufacturing, quality control, plant layout, new equipment, and industrial installations.

METROPOLITAN BOTTLING COMPANY, INC.

This division of your Company, which owns and operates 17 bottling plants in the United States, in 1954 achieved the highest sales level in its history.

At year end, Company plants were located in: New York City (2), Philadelphia (2), Boston, Pittsburgh, Milwaukee, Houston, Memphis, Jersey City, Nashville, Mobile, Phoenix, New Brunswick, N. J., Alexandria, Va., Teterboro, N. J., and Waco, Texas.

The Company's plants in Montgomery, Alabama and Monroe, Louisiana were sold to independent local bottlers in 1954.

The substantial growth of sales by Company bottling plants is exemplified in the Metropolitan area of New York and adjacent territory. Since 1950, new and additional bottling plants have been established in the Bronx, New York, and Teterboro and Jersey City, New Jersey. The bottling plant in New Brunswick, New Jersey has been enlarged, and our former plant in Newark, New Jersey was sold.

The continued growth in the Metropolitan area of New York, now taxing capacity, has necessitated studies to obtain additional locations upon which bottling plants may be constructed to keep pace with growing demand.

In Milwaukee, (see photographs, inside front cover) a new bottling plant was opened in June, 1954. Here we have provided a modern plant with facilities presently capable of tripling the capacity of our former plant in this area. It is designed to house additional machinery as the need develops.

In Philadelphia, our new bottling plant at "G" and Luzerne Street, acquired in 1950, was enlarged by construction of an additional 47,000 square feet of space during 1954. Land was also purchased at the junction of 24th and 25th Streets, Mifflin Street and Point Breeze Avenue, in Philadelphia, where there is being constructed an additional bottling plant the more economically and efficiently to serve the southern area of the city. The new plant, equipped with the latest machinery, will have 66,000 square feet under roof, including a garage for 100 vehicles, and will substantially augment our ability to meet the growing demand for Pepsi-Cola in this city.

Our existing plant in New Brunswick, New Jersey has undergone extensive alteration. Twenty-five thousand additional square feet have been added, and the plant is ready for the heavy selling season ahead.

In Memphis, Tennessee, a new bottling plant, with 45,000 square feet of floor space, will open about March 31, 1955. Located at the corner of Commerce Street (51 Highway North) and Royal Avenue, the new plant is being constructed to our plans and for our occupancy. The Company acquired the Memphis franchise in 1950. Since that date, the business has increased by 374 per cent, and the leased premises which we have been operating in excess of capacity are inadequate. The new plant will provide ample opportunity for growth.

Houston, Texas, has recently become Company-owned territory. A plot of land consisting of 83,000 square feet located at the corner of Broad Street and the Gulf Freeway has been purchased and a new plant is under construction. It will come into use in the spring of 1955. Pepsi-Cola is winning an increasing share of this booming market, and with new facilities and a plant adjacent to the new Freeway, on which it is estimated that 100,000 cars a day pass, there will be a new and bright landmark for your Company in Texas.

SCHWEPPES

Schweppes Quinine Water, introduced in the New York market in 1953, is now available in 48 cities in major market areas. Production of Schweppes Club Soda and Schweppes Ginger Ale have been added and introduced into the New York Metropolitan area and 32 other cities. It is planned that these superior mixers will be

available to 70 markets throughout the United States by the end of 1955, as Bottlers' production facilities are installed to meet the exacting standards of these quality beverages. Schweppes products were introduced to Canada by our Canadian subsidiary during 1954 and have met immediate and excellent acceptance.

Our advertising of Schweppes products, featuring Commander Edward Whitehead, the bearded "Man from Schweppes," has excited the imagination of the American consumer.

"ON PREMISE" SALES

In 1954 the Company made good progress in the important "on premise" market. More vending machines were sold during the first six months of 1954 than in any full year in the history of the Company, and their purchase by our Bottlers is accelerating. These vending machines, located where people gather in large numbers, have resulted in increased revenues for Bottlers and for Pepsi-Cola Company.

The Company is making great headway in the distribution of our product through cup vending machines. These machines, which dispense a measured drink under perfect conditions of refrigeration and mix, are operated and maintained by third party operators. The Company has made notable progress in the past year in obtaining exclusive or participating distribution in this type of machine. Moreover, when our product is dispensed in a multiple cup machine, the overwhelming preference of the public for our drink when measured against other types of refreshment is noteworthy.

Since 1950 we have obtained locations in a substantial number of motion picture theatres throughout the United States. Our gains in sales in this field reached an impressive 55 per cent during 1954.

We continue to progress with installations of bottle vending machines, cup vending machines and service through "in feeders" within industrial plants throughout the United States. During 1954 Pepsi-Cola became available to the working force of leading automobile, aviation, electronic and other industrial plants.

Our National Sales Department has been instrumental during 1954 in effecting arrangements with drug store chains and variety stores for fountain sales, resulting in an increase of about 40 per cent. Similarly, their efforts in effecting sales to Government installations have accounted for better than a 50 per cent increase.

ADVERTISING

Our new advertising in national magazines, on billboards, in newspapers and on the air stresses the theme of quality, and itself reflects quality. This advertising has won widespread approval among Pepsi-Cola Bottlers, and also among their customers in the general public. This approval is being expressed on a growing scale in increased consumer acceptance and increased sales.

Not alone our product itself, but also those things which remind people of the product have been upgraded to a higher quality level. Working with a committee of Bottlers, we have made great progress in standardizing designs for trucks and uniforms for salesmen, in redesigning our cartons and in making everything connected with Pepsi-Cola present a uniformly excellent appearance. All these factors have contributed to an increase in the prestige of Pepsi-Cola.

Our Bottlers spend approximately as much money as the Parent Company in advertising and promoting Pepsi-Cola, in conformity to our basic policy of stressing quality. Their advertising campaigns, in cooperation with the Parent Company, have more than paid for themselves in the increased profits derived from increased sales.

Development Around the World

The Company is making significant progress outside the United States.

Export sales of Pepsi-Cola reached a new high in 1954. At year end there were 223 Pepsi-Cola bottling plants operating in 67 countries abroad, making our product available to approximately 208 million people in export markets.

Pepsi-Cola International, Ltd. began operations in April, 1954, and is in the process of taking over your Company's entire export operation outside of North America. This wholly-owned subsidiary was formed because of the increasing importance of international operations in your Company's affairs.

Pepsi-Cola International gives our Overseas Bottlers the same kind of close support and collaboration that Bottlers in the United States receive from the Parent Company. Highly skilled personnel of Pepsi-Cola International, quartered in strategic locations throughout the free world, advise Bottlers on the newest techniques of advertising, merchandising and production.

Twenty-one new Pepsi-Cola bottling plants were opened outside the United States during 1954, in 14 countries, adding 16 million potential customers for our products. These plants are located in: England (5), Canada (4), Mexico, Venezuela, Germany, the Philippine Islands, Saudi Arabia, Kuwait, Okinawa, Kenya, Angola, Peru, Colombia, and Trinidad.

It is expected that 19 new Pepsi-Cola bottling plants will be opened in 13 countries outside the United States during 1955.

OUR SUBSIDIARY COMPANIES OUTSIDE U. S.

Canada

Our Canadian subsidiary has served Toronto, Canada's second largest market, through our own bottling plant. To keep pace with growing demand in the rapidly expanding Toronto market, we opened in September 1954 a new and much larger plant (see photographs inside back cover).

New bottling plants were also opened by franchised Bottlers in Calgary and Edmonton, Alta., Fredericton, N.B., and Victoria, B.C.

With more than 100 bottling plants throughout Canada, Pepsi-Cola is now accessible to the people of this fast-growing country from the Maritime Provinces on the Atlantic seaboard to British Columbia on the Pacific.

Mexico

Pepsi-Cola franchised bottling operations in Mexico continue to expand. During 1954 a Pepsi-Cola plant was opened in the city of Aguascalientes and plans are under way to open two new plants during 1955, bringing the total number of plants serving the Mexican public to 30.

The superior quality of our drink has made Pepsi-Cola increasingly the favorite beverage south of the border. And the hundreds of thousands of Americans who visit Mexico every year find Pepsi-Cola readily available to them, meeting the same high standards of quality and purity that they have come to expect in the United States.

Brazil

Sales in Porto Alegre have exceeded all expectations, and this Bottler will open a second plant in Pelotas early in 1955.

Another Pepsi-Cola plant will also open in Belo Horizonte this

year. The success following introduction of our product into these three important markets of Brazil is expected to lead to establishment of bottling facilities in other important areas of the country.

In addition to operating manufacturing subsidiaries in the countries mentioned above, the Company also has such subsidiaries in England, France and Australia. It is expected that a manufacturing subsidiary in Germany will be placed in operation soon. Our Cuban subsidiary operates two bottling plants in Havana and Santiago.

EXPANSION ELSEWHERE

Uruguay

In February of this year the first Pepsi-Cola bottling plant in the country was opened in the capital city of Montevideo. Montevideo has been reported to have the highest per capita consumption of soft drinks of any city in the world.

To assist the Bottler in pioneering this market, Pepsi-Cola International sent a team of sales and technical experts to supervise the introduction of our product. Opening day's sale of Pepsi-Cola indicated such initial acceptance that our Bottler has taken steps to quadruple present productive capacity.

Venezuela

Since Pepsi-Cola was introduced in the Venezuelan market in 1940, a total of 10 bottling plants have been opened in this prosperous South American country. The people of Venezuela continue to express an overwhelming preference for our product.

Middle East

During 1954 Pepsi-Cola increased its already strong public acceptance throughout the Middle East.

A plant now under construction will extend availability of our product during 1955 to the important market of Teheran, Iran. Also, our Bottler who has successfully operated a bottling plant in Baghdad for five years, is now building a new plant in another important market, Basra, Iraq.

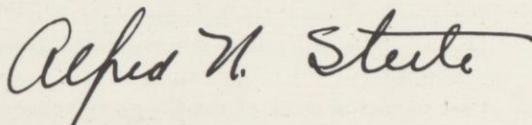
This year, with public acceptance of our product broadening in every market, Pepsi-Cola International anticipates continued sales increases in its uninterrupted advance around the world.

Outlook

In the past 25 years, per capita consumption of soft drinks in the United States has increased by more than 200 per cent. It is estimated that 60 per cent of all are cola drinks. And the preference for cola drinks, wherever introduced overseas, follows the United States trend.

On behalf of the Board of Directors I wish to thank our Stockholders, our loyal staff of Employees, and our Bottlers throughout the world for their interest, cooperation and support throughout 1954. With their continued cooperation and with the finest and fastest growing product of its kind in a growing industry, I believe that the outlook for increased sales and larger profits is favorable.

Respectfully submitted
By Order of the Board of Directors



March 28, 1955

ALFRED N. STEELE, *President*

ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting of our Stockholders, which is held each year at the Company's home office in Wilmington, Delaware, will be held there this year at two o'clock in the afternoon, on Wednesday, May 4. An official Notice together with a Proxy and a Proxy Statement accompany this Annual Report.

We hope as many Stockholders as possible will attend.

However, if you cannot attend, please sign and mail back the enclosed proxy.

With our December 31, 1954 payment of dividend to stockholders of record as of December 10, 1954, we enclosed a transcript of remarks made by Mr. Steele before a meeting of the New York Society of Security Analysts, Inc. on December 22, 1954, in which Mr. Steele related to that group the development of your Company. If you have not received a copy and wish to have one, please address your request to Secretary, Pepsi-Cola Company, 3 West 57th Street, New York, N.Y.



Pepsi-Cola Company and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEET

ASSETS	1954	1953
CURRENT ASSETS:		
Cash	\$10,839,945	\$11,238,811
United States and Canadian Government obligations (market valuation—1954, \$9,816,000)	9,301,403	10,684,431
Notes and accounts receivable (less allowance for doubtful receivables—1954, \$154,064; 1953, \$149,008)	3,809,947	2,908,744
Inventories:		
Finished, in-process, raw materials, and supplies	3,750,957	4,441,366
Vending equipment held for resale	1,607,314	577,055
Total current assets	\$29,309,566	\$29,850,407
MISCELLANEOUS ASSETS:		
Notes and accounts receivable—not current	\$ 946,106	\$ 716,949
Bottling machinery, etc. held for resale	118,042	158,443
Investment in, and advances to, subsidiaries not consolidated	492,313	520,564
Cost of capital stock of the Company acquired for an officer (8,500 shares paid for in 1954)		91,095
Other	358,131	466,506
Total miscellaneous assets	\$ 1,914,592	\$ 1,953,557
PROPERTY, PLANT, AND EQUIPMENT:		
Land, buildings, equipment, leasehold improvements, etc.—at cost (less depreciation and amortization— 1954, \$9,553,050; 1953, \$8,170,800)	\$12,585,794	\$10,854,550
Bottles and cases on hand and with trade (at estimated depreciated values)	4,586,531	3,904,180
Total property, plant, and equipment—net	\$17,172,325	\$14,758,730
DEFERRED DEBIT ITEMS:		
Prepaid insurance, taxes, etc.	\$ 443,374	\$ 407,310
Advertising materials and expenses	1,821,935	1,533,658
Other	125,344	69,091
Total deferred debit items	\$ 2,390,653	\$ 2,010,059
TRADEMARKS, FORMULAS, AND GOODWILL		
Total	\$ 50,787,137	\$ 48,572,754

Reference is made to the accompanying Notes to Financial Statements starting at page 19.

DECEMBER 31, 1954 AND 1953

LIABILITIES	1954	1953
CURRENT LIABILITIES:		
Notes payable (including current installments on long-term obligations)	\$ 426,300	\$ 399,300
Accounts payable and accrued	<u>3,560,285</u>	3,279,286
Dividend payable		1,435,876
Accrued taxes—estimated:		
United States and foreign taxes on income	6,189,884	5,762,504
Other taxes	<u>1,051,053</u>	<u>977,452</u>
Total current liabilities (exclusive of customers' deposits on bottles and cases, shown below)	<u>\$11,227,522</u>	<u>\$11,854,418</u>
OTHER LIABILITIES:		
Note payable to insurance company, 3%, due June 1, 1963, payable \$333,000 annually (current installment included above)	\$ 2,665,000	\$ 2,998,000
Other notes, and mortgages assumed	<u>89,650</u>	182,950
Customers' deposits on bottles and cases	<u>2,184,992</u>	<u>1,930,330</u>
Total other liabilities	<u>\$ 4,939,642</u>	<u>\$ 5,111,280</u>
CAPITAL STOCK AND SURPLUS:		
Capital stock—authorized, 7,500,000 shares of 33 $\frac{1}{3}$ ¢ each; issued and outstanding at December 31, 1954, 5,813,155 shares	\$ 1,937,718	\$ 1,917,553
Capital surplus	<u>6,073,972</u>	5,535,125
Earned surplus	<u>26,608,283</u>	24,165,086
Total	<u>\$34,619,973</u>	\$31,617,764
Less treasury stock (654 shares, at cost)		10,708
Total capital stock and surplus	<u>\$34,619,973</u>	<u>\$31,607,056</u>
Total	<u>\$50,787,137</u>	\$48,572,754

Reference is made to the accompanying Notes to Financial Statements starting at page 19.



Pepsi-Cola Company and Consolidated Subsidiaries

SUMMARY

CONSOLIDATED INCOME

for the years ended December 31, 1954 and 1953

	1954	1953
GROSS PROFIT ON SALES	\$51,787,727	\$45,419,752
ADVERTISING, SELLING, SHIPPING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>38,795,322</u>	<u>34,278,112</u>
PROFIT FROM OPERATIONS	<u>\$12,992,405</u>	<u>\$11,141,640</u>
OTHER INCOME	<u>569,153</u>	<u>483,039</u>
GROSS INCOME	<u>\$13,561,558</u>	<u>\$11,624,679</u>
INCOME CHARGES	<u>857,868</u>	<u>240,267</u>
INCOME BEFORE DEDUCTING PROVISIONS FOR UNITED STATES AND FOREIGN INCOME TAXES	<u>\$12,703,690</u>	<u>\$11,384,412</u>
PROVISIONS FOR UNITED STATES AND FOREIGN INCOME TAXES—Estimated:		
United States	<u>\$ 5,030,000</u>	<u>\$ 4,480,000</u>
Foreign	<u>1,461,000</u>	<u>1,427,530</u>
TOTAL	<u>\$ 6,491,000</u>	<u>\$ 5,907,530</u>
NET INCOME	<u>\$ 6,212,690</u>	<u>\$ 5,476,882</u>

CONSOLIDATED SURPLUS

for the year ended December 31, 1954

	Earned Surplus	Capital Surplus
BALANCE, JANUARY 1, 1954	\$24,165,086	\$ 5,535,125
NET INCOME FOR THE YEAR	<u>6,212,690</u>	
EXCESS OF PROCEEDS OVER PAR VALUE OF 60,496 SHARES OF CAPITAL STOCK ISSUED UNDER STOCK OPTION PLAN		<u>538,847</u>
TOTAL	<u>\$30,377,776</u>	<u>\$ 6,073,972</u>
DIVIDENDS (65¢ a share)	<u>3,769,493</u>	
BALANCE, DECEMBER 31, 1954	<u>\$26,608,283</u>	<u>\$ 6,073,972</u>

Reference is made to the accompanying Notes to Financial Statements starting at page 19.

NOTES TO FINANCIAL STATEMENTS

December 31, 1954

1. The inventories are stated at cost, certain inventories being at average cost and the others being on the basis of first-in, first-out. Such costs were not in excess of market.
2. The current assets and liabilities, total assets and liabilities, earned surplus, and net income of foreign subsidiaries, which are included in the 1954 consolidated financial statements, are as follows:

	Canadian subsidiary	Cuban subsidiary	Mexican subsidiaries	French subsidiary	Brazilian subsidiary	German subsidiary
Current assets	\$1,243,184	\$ 414,581	\$1,502,006	\$165,982	\$136,540	\$21,264
Current liabilities	337,386	84,038	350,618	54,186	10,389	71,328
Total assets	3,759,449	1,660,590	1,841,885	336,192	160,548	35,721
Total liabilities	538,261	202,897	350,618	54,186	10,389	71,328
Earned surplus (deficit)	897,591	(785,300)	1,371,433	127,006	(23,057)	(62,707)
Net income (loss) for year	320,205	(213,521)	161,422	39,220	(52,112)	(62,707)

The assets and liabilities of these subsidiaries have been converted into United States dollars at current rates of exchange; income and expenses have been converted at rates prevailing during the year.

Provisions for taxes related to the transfer of funds to the United States are made only at the time of such transfers.

3. Because of continuing stringent foreign exchange restrictions, the accounts of the British subsidiary (and its subsidiaries) are excluded from the consolidated financial statements. The current assets and liabilities and total assets and liabilities of these subsidiaries, and the parent company's equity, at December 31, 1954, and the subsidiaries' net loss for the year are as follows:

Current assets	\$ 548,904
Current liabilities	195,040
Total assets	1,427,348
Total liabilities	195,561
Parent company's equity in net assets	1,231,787
Net loss for year	132,243

4. The Federal income tax returns of the Company and domestic subsidiaries have been examined and settled through the year 1950; the tax returns for the years 1951 and 1952 are under examination.

5. On May 7, 1952 the stockholders approved the adoption of a Stock Option Plan under which 200,000 shares of the Company's capital stock were made available for the granting of options to executives. The status of options granted at December 31, 1954 was as follows:

Date Granted	Expiration Date	Option Price	Market Price At Date Of Grant	Number of Shares Options Granted	Number of Shares Issued
November 21, 1951	November 20, 1956	\$ 9.125	\$ 9.125	90,000	29,500
August 28, 1952	August 27, 1957	9.2625	9.75	64,000	26,050
August 28, 1952	August 27, 1957	9.75	9.75	5,600	5,600
January 28, 1954	January 27, 1959	12.43125	14.625	25,500	
			Total	185,100	61,150

6. The provisions of the note payable to the insurance company include certain restrictions on the payment of cash dividends on the capital stock of the Company. At December 31, 1954 approximately \$8,320,000 of earned surplus was free of such restrictions.

7. At December 31, 1954 the Company and consolidated subsidiaries were contingently liable as guarantors of bank loans, principally to various franchised Bottlers, aggregating \$2,580,000.

8. There is pending in the Supreme Court, New York County, a stockholders' derivative action instituted in 1953, brought on behalf of the Company by certain Stockholders, charging the President with mismanagement for his personal gain and charging other Directors with mismanagement. The President and other Director Defendants have denied the charges. It is the opinion of Counsel for the Company that these charges are without merit. A similar action was instituted in 1953 against the President in Delaware, which action has been stayed pending the New York action.

9. The provisions for depreciation and amortization charged to manufacturing and expense accounts amounted to \$1,891,000 in 1954, and \$1,819,000 in 1953.

ACCOUNTANTS' CERTIFICATE

HASKINS & SELLS
Certified Public Accountants

67 Broad Street
New York 4

THE DIRECTORS AND STOCKHOLDERS
OF PEPSI-COLA COMPANY:

We have examined the balance sheet of Pepsi-Cola Company and consolidated subsidiaries as of December 31, 1954 and the related summaries of consolidated income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

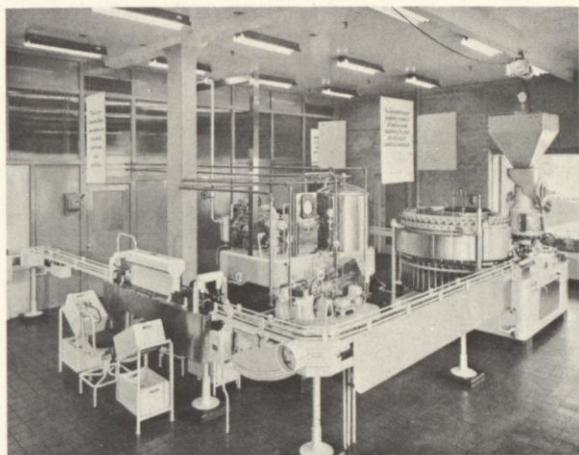
In our opinion, the accompanying consolidated balance sheet and the related summaries of consolidated income and surplus present fairly the financial position of the companies at December 31, 1954 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

March 15, 1955

HASKINS & SELLS



Automatic Bottling Room



Toronto, Canada

To provide new facilities in keeping with the industrial and population expansion in the Toronto area, your Company's Canadian subsidiary opened this modern bottling plant in September 1954.

The new plant, located at 1435 Western Road, designed and built for us by The Foundation Company, Ltd., occupies 78,000 square feet of floor space, has outside paved area of 32,720 square feet, and is equipped with the latest developments in automatic machinery.

Syrup Room



PEPSI-COLA COMPANY

EXECUTIVE OFFICES:

3 West 57th Street, New York, N. Y.

REGIONAL OFFICES:

1401 Peachtree Building, Atlanta, Ga.

Suite 516, 100 East Ohio Street, Chicago, Ill.

4300 LeVeque Lincoln Tower Building,
50 West Broad Street, Columbus 15, Ohio

1004-5 Mercantile Securities Building, Dallas, Texas

781 Ursula Street, Denver 8, Colo.

785 Market Street, San Francisco, Calif.

509-15 Onondaga Savings Bldg., Syracuse, New York

1523 L Street, Washington, D. C.

Address all Communications to:

Secretary, Pepsi-Cola Company
3 West 57th Street, New York, N. Y.